

## Message Text

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ORIGIN SS-20

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PM-LSLOSS

DOD-LOBDELL (INFORMED)

S/S- MR. PICKERING

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FM SECSTATE WASHDC

TO USMISSION NATO IMMEDIATE

AMEMBASSY BONN IMMEDIATE

INFO ALL NATO CAPITALS IMMEDIATE

XMT AMEMBASSY BONN

USMISSION NATO

C O N F I D E N T I A L STATE 231357

E.O. 11652

TAGS: MCAP, NATO, PFOR

SUBJECT: ANALYSIS OF JACKSON-NUNN AMENDMENT

FOLLOWING IS PERSONAL ASSESSMENT BY UNDER SECRETARY CASEY

1. DURING HIS RECENT VISIT TO BONN, UNDER SECRETARY CASEY TOLD THE GERMANS THAT HE WOULD PROVIDE THEM WITH A PRELIMINARY ANALYSIS OF THE JACKSON-NUNN AMENDMENT. FOR COMPLIANCE WITH THAT UNDERTAKING, EMBASSY BONN IS AUTHORIZED TO GIVE THE FOLLOWING TO THE FOREIGN OFFICE.

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2. THE AMENDMENT CALLS ON THE PRESIDENT TO SEEK SUFFICIENT PAYMENTS FROM OUR NATO ALLIES TO OFFSET FULLY OUR FY 1974 BOP DEFICIT RESULTING FROM FORCE DEPLOYMENTS IN EUROPE IN FULFILLMENT OF REATY COMMITMENTS, AND REQUIRES THAT WE

WITHDRAW FORCES BY THE PERCENTAGE BY WHICH THEY FAIL TO PROVIDE 100 PERCENT OFFSET FOR THE SAID FY 1974 DEFICIT. THE AMENDMENT ALSO STATES THAT OUR ALLIES SHOULD ASSUME THE BUDGETARY COSTS OF SOME OF OUR OPERATIONS (SUCH AS THE PAY OF LOCAL EMPLOYEES, CONSTRUCTION AND MAINTENANCE COSTS, ETC.) AND SHOULD ASSUME A LARGER SHARE OF THE COSTS OF NATO INFRASTRUCTURE; BUT IT ESTABLISHES NO MANDATORY LINK BETWEEN SUCH MEASURES AND TROOP REDUCTIONS.

3. IN ITS ORIGINAL VERSION, AS PUBLISHED IN THE CONGRESSIONAL RECORD FOR AUGUST 3, THE AMENDMENT WOULD HAVE REQUIRED US TO HAVE A FULL OFFSET FROM THE ALLIES WITHIN FY 1974 OF OUR EXPENDITURES FOR THAT YEAR. IF THAT REQUIREMENT HAD NOT BEEN MET BY JULY 1, 1974, WE WOULD HAVE HAD TO WITHDRAW FORCES BY DECEMBER 1, 1974. BUT BEFORE SUBMITTING THEIR AMENDMENT FOR SENATE DEBATE, THE AUTHORS REVISED IT TO PROVIDE THAT OUR FY 1974 EXPENDITURES HAD TO BE OFFSET "PRIOR TO THE EXPIRATION OF TWELVE MONTHS AFTER THE DATE OF ENACTMENT OF THIS SECTION:" IN THE ABSENCE OF SUCH OFFSET, APPROPRIATE FORCE REDUCTIONS WOULD HAVE BEEN REQUIRED PRIOR TO THE EXPIRATION OF EIGHTEEN MONTHS FROM THE DATE OF ENACTMENT. THIS VERSION OF THE AMENDMENT PASSED THE SENATE ON SEPTEMBER 25. ON OCTOBER 13, THE HOUSE-SENATE CONFERENCE ON THE DEFENSE PROCUREMENT BILL REVISED THE AMENDMENT FURTHER TO PROVIDE THAT OUR FY 1974 EXPENDITURES HAD TO BE OFFSET PRIOR TO EIGHTEEN MONTHS FROM THE DATE OF ENACTMENT, WITH ANY NECESSARY FORCE REDUCTIONS TO BE COMPLETE BY TWENTY-FOUR MONTHS FROM THE DATE OF ENACTMENT. THIS VERSION WAS GIVEN FINAL PASSAGE BY BOTH HOUSES.

4. THE PRESIDENT SIGNED THE BILL INTO LAW ON NOVEMBER 16. THE LANGUAGE OF THE AMENDMENT THEREFORE GIVES UNTIL MAY 16, 1975 TO OFFSET OUR BOP EXPENDITURES FOR FY 1974. ON THE INTERPRETATION THAT THE AMENDMENT MEANS THAT THE OFFSET PERIOD BEGINS SIMULTANEOUSLY WITH THE EXPENDITURE PERIOD (I.E., ON JULY 2, 1973), THIS WOULD GIVE THE ALLIS  
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MORE THAN TWENTY-TWO MONTHS TO OFFSET TWELVE MONTHS' EXPENDITURES. HOWEVER, WITH AN EIGHT-FIVE TO FOUR VOTE IN FAVOR OF JACKSON-NUNN, WE MUST ASSUME THAT IT WILL BE RE-ENACTED SO THAT FURTHER BORROWING FROM THE FUTURE WILL NOT WORK. THIS MUST BE GIVEN DUE ACCOUNT AS WE AND OUR ALLIES PLAN THE MEANS TO RESOLVE THE OFFSET PROBLEM. IN ANY EVENT, THE ONLY SOUND BASIS FOR WORKING OUT A DURABLE SOLUTION TO THE PERENNIAL U.S. MILITARY BOP PROBLEM IN EUROPE IS TO PLAN ON "OFFSET PERIODS" NO LONGER THAN THE EXPENDITURE PERIODS" WHICH THEY ARE DESIGNED TO COVER.

5. AS FOR THE JACKSON-NUNN DEFINITION OF OUR MILITARY BOP EXPENDITURES, THE LEGISLATIVE HISTORY OF THE

AMENDMENT MAKES CLEAR THAT THE ALLIES ARE NOT BEING ASKED TO OFFSET OUR EXPENDITURES FOR NON-NATO-RELATED U.S. MILITARY ACTIVITIES IN EUROPE. THE TWO SENATORS WERE CAREFUL TO STRESS DURING THE DEBATE ON THEIR AMENDMENT THAT THEY DID NOT MEAN TO INCLUDE COSTS ASSOCIATED WITH OUR STRATEGIC DETERRENT, FOR EXAMPLE. WHILE WE DO NOT YET HAVE A FIRM FIGURE AS TO WHAT PART OF OUR FORCES IN EUROPE ARE NOT NATO-RELATED, AN ESTIMATE OF TEN PERCENT SEEMS REASONABLE FOR WORKING PURPOSES AT THIS TIME.

6. AS FOR THE JACKSON-NUNN DEFINITION OF "OFFSET", THE AMENDMENT CHARGES THE U.S. DEPARTMENT OF COMMERCE, IN CONSULTATION WITH THE DEPARTMENT OF DEFENSE AND THE COMPTROLLER GENERAL OF THE U.S., TO DETERMINE WHAT MEASURES ARE TO BE INCLUDED IN THE CALCULATIONS. THIS PROCESS OF DEFINITION IS NOW IN TRAIN. (THE COMPTROLLER GENERAL IS AN AGENT OF THE CONGRESS, NOT OF THE EXECUTIVE BRANCH.)

7. WITH THESE CONSIDERATIONS IN MIND, WE CAN MAKE THE FOLLOWING ESTIMATES OF THE IMPACT OF THE JACKSON-NUNN AMENDMENT.

8. OUR FY 1974 MILITARY BOP EXPENDITURES IN NATO EUROPE WILL BE ABOUT \$2.5 BILLION. WITH A DEDUCTION OF TEN PERCENT FOR MILITARY ACTIVITIES WHICH ARE NOT NATO-RELATED, OUR EXPENDITURES FOR THE PURPOSE OF THE AMENDMENT WILL BE ABOUT \$2.25 BILLION.

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9. ON BASIS OF OFFSET OFFERED TO DATE BY GERMANS AND ESTIMATES OF MILITARY PURCHASES OF OTHER ALLIES FOR FY 1974, WE HAVE TO PLAN ON COVERING A GAP OF ABOUT \$900 MILLION OR WITHDRAWING THIRTY-EIGHT PERCENT OF U.S. TROOPS.

10. WE CAN BUY SOME TIME BY UTILIZING THE TWENTY-TWO AND ONE-HALF MONTH PERIOD TO EFFECT TRANSITION TO HIGHER BUDGET LEVELS AND MORE SUBSTANTIAL OFFSET IN FY 1975. GERMAN OFFSET PLUS RECEIPTS FROM PURCHASES IN US OF MILITARY EQUIPMENT BY OTHER ALLIES OVER A TWENTY-TWO AND ONE-HALF MONTH PERIOD ARE ESTIMATED AT \$2.1 BILLION SO THAT IT WOULD NOT TAKE MUCH OF AN INCREASE IN FY 1975 PROCUREMENT TO AVOID TROOP WITHDRAWALS ON A TWENTY-TWO AND ONE-HALF MONTH BASIS. BUT THIS INVOLVES UNDESIRABLE BORROWING FROM THE FUTURE.

11. THE TWENTY-TWO AND ONE-HALF MONTH PERIOD SHOULD ONLY BE UTILIZED IN CONNECTION WITH A FIRM INTENTION AND DEFINITE PROGRAM TO INCREASE OR RESTRUCTURE DEFENSE BUDGETS AND TO MAKE UP FOR THE AMOUNT BORROWED FROM FY 1975 TO COVER THE \$900 MILLION GAP FOR 1974.

12. BASICALLY, THE \$900 MILLION REQUIREMENT INVOLVES INCREASING OR RESTRUCTURING ALLIED MILITARY BUDGETS TO EXTENT OF 2.9 PERCENT AND APPLYING IT TO OFFSET PURPOSES. THIS WOULD AVOID A THIRTY-EIGHT PERCENT REDUCTION IN U.S. FORCES IN EUROPE AND A CUT OF NINE PERCENT IN OVERALL NATO STRENGTH. OBVIOUSLY, EUROPEAN DEFENSE BUDGETS WOULD HAVE TO BE INCREASED BY MUCH MORE THAN 2.9 PERCENT TO RESTORE THIS CAPABILITY.

13. TO STIMULATE CONCRETE THINKING ON METHODS OF REACHING A LEVEL OF OFFSET WHICH WOULD STABILIZE THE U.S. TROOP COMMITMENT, HERE IS ONE POSSIBLE APPROACH. IT MAY BE THAT BUDGET AND POLITICAL INHIBITIONS ARE SUCH THAT THE 2.9 PERCENT ADJUSTMENT CANNOT BE MADE IN ONE YEAR. THE U.S. TROOP COMMITMENT COULD STILL BE STABILIZED BY A PROGRAM TO INCREASE OR REDIRECT BUDGETS BY ONE AND ONE-HALF PERCENT A YEAR TO ABSORB VARIOUS U.S. LOCAL COSTS AND IMPROVE DEFENSE CAPABILITY BY ADDITIONAL MILITARY PROCUREMENT IN THE U.S. BY THE USE OF THE TIME LAGS JACKSON-CONFIDENTIAL

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NUNN PROVIDES. TO PAY BACK THE BORROWING FROM THE FUTURE, THE ONE AND ONE-HALF PERCENT INCREMENTS WOULD CONTINUE FOR THREE YEARS AT WHICH TIME THE EUROPEAN MILITARY BUDGETS WOULD HAVE BEEN ADJUSTED BY 4.5 PERCENT FOR THIS PURPOSE. AFTER SIX YEARS, THE LAG RESULTING FROM GRADUATION OF THE ADJUSTMENT WILL HAVE BEEN OVERCOME AND THE BUDGET ADJUSTMENT FOR THIS PURPOSE COULD BE CUT BACK TO \$1 BILLION OR ABOUT 3 PERCENT OF PRESENT LEVELS.

14. THIS IS A GENERAL APPROACH WHICH SHOULD BE MANAGEABLE FOR BOTH THE U.S. AND THE EUROPEANS. IT CAN BE TAILORED AND MODIFIED AS WE GO ALONG.

15. THE FOLLOWING TABLE ILLUSTRATES GENERALLY HOW SUCH A PLAN WOULD WORK AT THE CURRENT ANNUAL U.S. MILITARY DEFICIT LEVEL OF \$2.25 BILLION:

APPLICATION OF SUCCEEDING YEAR RECEIPTS TO CURRENT YEAR OFFSET: (ALL FIGURES IN CONSTANT 1973 MILLIONS OF DOLLARS)

- (1) FISCAL YEAR
- (2) NORMAL RECEIPTS FROM EUROPEAN NATO MEMBERS (EXCLUDING FRANCE)
- (3) PROPOSED LEVELS OF EUROPEAN DEFENSE EXPENDITURES
- (4) ADDITIONAL OFFSET FROM INCREASE OR SHIFTS IN EUROPEAN DEFENSE EXPENDITURES
- (5) TOTAL CURRENT AVAILABILITIES (2) PLUS (4)
- (6) APPLICATION OF TOTAL CURRENT AVAILABILITIES
- (7) TOTAL RECEIPTS (EQUALS 6)

(1) (2) (3) (4) (5) (6) (7)

1,278  
 1974 1,278 31,225 0 1,278 972 2250  
  
 1975 1,278 31,692 467 1,745 773  
 1,477 2250  
  
 1976 1,242 32,169 944 2,186 709 2250  
 1,541

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1977 1,241 32,651 1,426 2,667 1,126  
 1,124 2250  
  
 1978 1,242 32,651 1,426 2,668 1,544  
 706 2250  
  
 1979 1,241 32,651 1,426 2,667 1,961  
 289 2250  
  
 1980 1,242 32,522 1,297 2,539 2,250 2250  
  
 1981 1,242 32,233 1,008 2,250 2,250 2250

THIS PROJECTION IS INTENDED TO INDICATE THE POSSIBILITY OF A GRADUATED APPROACH TO FULL OFFSET WHILE COMPLYING WITH JACKSON-NUNN TO AVOID TROOP WITHDRAWALS. WITHIN THIS FRAMEWORK, MANY ADJUSTMENTS ARE POSSIBLE. SOME WILL BECOME NECESSARY AS MILITARY REQUIREMENTS, PRICES, EXCHANGE RATES AND OTHER CIRCUMSTANCES CHANGE.

16. IT WILL BE NECESSARY TO GIVE NATO PARTNERS OUR IDEAS AS TO HOW TROOP COMMITMENT MAY BE MAINTAINED UNDER JACKSON-NUNN. YESTERDAY'S TELEGRAM (STATE 231268) PROVIDED MATERIAL FOR FIRST STEP IN THIS PROCESS. GERMAN OFFSET NEGOTIATOR HAS BEEN PROMISED SOMETHING MORE CONCRETE WHICH THE FOREGOING IS DESIGNED TO MEET. WOULD LIKE SUGGESTIONS OF EMBASSY BONN BEFORE FINALIZING FOREGOING FOR PRESENTATION TO HERMES. RUMSFELD MAY WANT TO USE FOREGOING TO INDICATE AT NATO THE FEASIBILITY OF GRADUAL APPROACH TO MEETING REQUIREMENTS LAID OUT IN REFERENCE TELEGRAM. WOULD LIKE HIS SUGGESTIONS AND REACTIONS BEFORE USING CONCEPT AT NATO. WE NEED TO STRESS TO ALLIES THAT A PROGRAM TO MAKE NEEDED BUDGET ADJUSTMENTS SEEMS NECESSARY TO MAINTAIN MAXIMUM CREDIBILITY AS TO US/EUROPEAN COMMITMENT. THE RATE OF BUDGET ADJUSTMENT NECESSARY TO MAINTAIN FULL TROOP COMMITMENT AS INDICATED HERE SHOULD BE PALATABLE BUT IF WE ENCOUNTER RELUCTANCE, CONCRETE PROPOSITION SHOULD BE OF VALUE IN BRINGING THE EUROPEANS AROUND TO REALISTIC RECOGNITION THAT THERE ARE SOME HARD CHOICES TO BE MADE.

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WILL WANT TO CONSIDER HERE ON TUESDAY ADVICE ON WHETHER  
SUBMISSION OF THESE CONCEPTS TO NAC ON WEDNESDAY IS  
DESIRABLE TO DEVELOP EUROPEAN REACTIONS USEFUL AS GUIDE  
TO SECRETARIES ON BEST STANCE TO TAKE AT DPC AND NAC  
MINISTERIALS. KISSINGER

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